

Message Text

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71

ACTION ARA-17

INFO OCT-01 ADP-00 SCEM-02 INT-08 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 DODE-00 PM-09

H-02 L-03 NSC-10 PA-03 PRS-01 SS-15 USIA-12 RSR-01

/157 W

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R 042214 Z MAY 73

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 7347

INFO AMEMBASSY CARACAS

AMEMBASSY LIMA

LIMITED OFFICIAL USE QUITO 2363

E. O. 11652: N/A

TAGS: ENRG, EC

SUBJECT: PETROLEUM: ROYALTY CRUDE PURCHASE OFFERS RECEIVED

1. SUMMARY: GOE ANNOUNCED THAT TWENTY- FOUR FIRMS HAVE MADE OFFERS TO BUY ECUADOR'S ROYALTY CRUDE. ELEVEN TO FIFTEEN MILLION TONS OF CRUDE WOULD BE INVOLVED FOR A TWO YEAR PERIOD. SOME BELIEVE THE GOE IS PRINCIPALLY TESTING THE MARKET AND WOULD BE DISPOSED TO CONTINUE TAKING ITS ROYALTY FROM TEXACO- GULF IN CASH AT AN INCREASED REFERENCE PRICE. END SUMMARY.

2. IN MARCH- APRIL GOE INVITED FORTY FIRMS OF VARIOUS NATIONALITIES TO BID ON PURCHASE OF ROYALTY CRUDE UNDER TWO YEAR CONTRACT. ROYALTY CRUDE IS SIXTEEN PERCENT OF PRODUCTION AND THE AMOUNT OFFERED FOR SALE IS PUT BY THE GOE AT 11-15 MILLION TONS PER YEAR. THE GOE DID NOT PUBLISH AN OPEN TENDER IN THE USUAL MANNER. RATHER, IT WROTE TO FIRMS WHICH HAD EXPRESSED AN INTEREST IN CRUDE

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SUPPLIES, AND TO FIRMS THAT INQUIRED AS A RESULT OF REPORTS
IN THE TRADE PRESS.

3. TWENTY- FOUR FIRMS SUBMITTED OFFERS BY THE APRIL 30
DEADLINE. SHALE OIL, JOC, ATLANTIC- RICHFIELD AND SEVERAL
OTHER U. S. COMPANIES ARE AMONG THEM. JAPANESE, BRAZILIAN
AND VENEZUELAN BUYERS ARE ALSO SAID TO HAVE BID. THE GOE
WILL STUDY THE OFFERS PRIVATELY AND RETAINS THE RIGHT TO
REJECT THEM ALL. THE COMPANIES HAVE BEEN TOLD THAT A
DECISION MAY TAKE SEVERAL WEEKS.

4. INTERESTED AMERICAN BIDDERS AND THE INDUSTRY HAVE
FOUND THE GOE' S APPROACH CURIOUS AND THEY DON' T KNOW
WHETHER THE GOE IS ENTIRELY SERIOUS. IT IS POSSIBLE THAT
THE GOE HAS AN ADVANCE IDEA OF TO WHOM IT WILL AWARD A
CONTRACT. BUT IT IS MORE WIDELY BELIEVED IN THE INDUSTRY
THAT THE GOE IS TESTING THE MARKET AND IS STILL UNDECIDED
ABOUT WHETHER TO TAKE ITS ROYALTY IN KIND RATHER THAN
CASH . THE EFFECTIVE REFERENCE PRICE IS \$2.98 BBL (BASED
ON ACTUAL 30 DEGREE API CRUDE) FOLLOWING THE APRIL 1
REVISION. IT IS ECPECTED THAT OFFERS TO BUY ROYALTY
CRUDE WILL APPROACH AND EXCEED THIS PRICE. WHETHER THE
GOE AWARDS A CONTRACT OR NOT, ONE OUTCOME OF THE ROYALTY
CRUDE BIDDING EXERCISE IS EXPECTED TO BE AN INCREASE IN
THE REFERENCE PRICE.
BURNS

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*** Current Classification *** LIMITED OFFICIAL USE

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